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## Agenda Item 3d

December 13, 2011

### TO: MEMBERS OF THE PERFORMANCE AND COMPENSATION COMMITTEE

- I. **SUBJECT:** Change to Chief Operating Investment Officer's Incentive Schedule
- II. **PROGRAM:** Administration
- III. **RECOMMENDATION:** Recommend the Board Approve the Change to the Chief Operating Investment Officer's Incentive Schedule
- IV. **ANALYSIS:**

#### **Nature of Request**

This item requests Committee approval of a change to the incentive schedule for the Chief Operating Investment Officer (COIO), from 0-40% to 0-60%. The request for this change was inadvertently left off the Committee's September agenda when it addressed the annual year-end compensation review process.

The purpose of this request is to reflect the evolving responsibilities of the position and to more closely align the incentive schedule with senior investment management positions within the Investment Office. The proposed effective date is July 1, 2011 and would apply to the COIO's 2011-12 performance plan.

#### **Background**

The COIO's current incentive schedule of 0 - 40% was approved by the Board of Administration (Board) in April 2007. At that time, the Board established the schedule to align the incentives of the COIO with similar positions covered under the Policy whose performance metrics were more qualitative in nature, such as the Chief Executive Officer, Chief Actuary and General Counsel.

However, over time, the performance metrics for the COIO have evolved to include both quantitative and qualitative components as the roles of the

function have expanded. The 2011-12 performance plan for the COIO has quantitative metrics that are more closely aligned with the Senior Investment Officer and Senior Portfolio Manager positions and include a 40% weighting on the Total Fund quantitative measure.

In addition, since the position was established in 2007, the imperative need to improve the overall effectiveness and efficiencies of INVO's internal operations, especially compliance, risk, governance and monitoring, has enlarged the scope and responsibilities of the position. The COIO now has a broader leadership role in developing asset management infrastructure and controls, and strategic programs in partnership with the CIO and Senior Investment Officers.

The relationship between quantitative and qualitative weights used to determine the COIO's incentive compensation is being reviewed as part of the classification study (Agenda Item 3f) and salary survey. The results will be presented to the Committee as part of the development of the compensation plan for FY 2012-2013.

### **Recommendation**

Staff recommends the Committee approve the recommendation of the Chief Investment Officer to change the incentive schedule of the COIO to 0 - 60%.

### **V. RISKS:**

A risk associated with not approving the Chief Investment Officer's request to increase the incentive schedule of the COIO is that the inequity of incentive opportunity that exists between the COIO and subordinate positions which have higher incentive schedules will continue.

### **VI. STRATEGIC PLAN:**

Under Goal III of the Strategic Plan, CalPERS is committed to sustaining a high performance work culture. This can be accomplished at the highest executive levels through the establishment of methods that provide broad flexibility in the recruitment, retention and compensation of key personnel.

## **VII. RESULTS/COSTS:**

The establishment of performance plan measures is critical to the management of a competitive compensation program for executives at the highest levels of the organization. This, in turn, is critical to the success of the organization. The cost of performance awards that might arise from the recommendations in this item will be funded from existing resources.

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Chief Investment Officer  
Investment Office